

# Keuning & Associates PC

112 E 3rd St  
West Liberty, IA 52776  
(319) 627-4727

Invoice No. 70800  
October 15, 2007

## FEDERAL FORMS

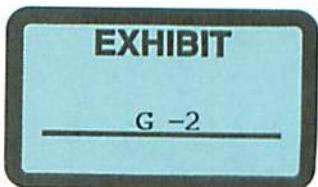
Form 1120S	2006 U.S. S Corporation Income Tax Return
Schedule K-1	Shareholder's Income, Deductions, Credits, etc
Form 4562	Depreciation and Amortization
Form 7004	Automatic Extension of Time to File
Form 8825	Rental Real Estate Income and Expenses
Basis Sch	Depreciation Schedules
	Shareholders' Basis Computation

## IOWA FORMS

Form IA-1120S	2006 Iowa S Corporation Income Tax Return
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## FEE SUMMARY

Preparation Fee	\$ 150.00
Amount Due	\$ 150.00



KEUNING & ASSOCIATES PC  
112 E 3RD ST  
WEST LIBERTY, IA 52776  
(319) 627-4727

October 15, 2007

Dear Client:

Enclosed is your 2006 Federal S Corporation Income Tax Return. The original should be signed at the bottom of page one. No tax is payable with the filing of this return. Mail the Federal return ~~on or before September 17, 2007 to:~~  
*as soon as possible*

INTERNAL REVENUE SERVICE  
OGDEN, UT 84201-0013

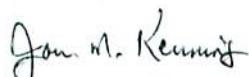
Enclosed is your 2006 Iowa S Corporation Income Tax Return. The original should be signed at the bottom of the form. No tax is payable with the filing of this return. Mail the Iowa return on or before October 31, 2007 to:

CORPORATION TAX RETURN PROCESSING  
IOWA DEPARTMENT OF REVENUE  
P.O. BOX 10468  
DES MOINES, IA 50306-0468

You must distribute a copy of the 2006 Schedule K-1 to each shareholder. Be sure to give each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120S).

Please call if you have any questions.

Sincerely,



Joan Keuning

**2006 S-Corporation Return  
prepared for:**

**Keuning & Associates PC  
112 E 3rd St  
West Liberty, IA 52776**

**KEUNING & ASSOCIATES PC  
112 E 3RD ST  
WEST LIBERTY, IA 52776  
(319) 627-4727**

October 15, 2007

R & R Apartments Inc

Dear Client:

Enclosed is your 2006 Federal S Corporation Income Tax Return. The original should be signed at the bottom of page one. No tax is payable with the filing of this return. Mail the Federal return on or before September 17, 2007 to:

**INTERNAL REVENUE SERVICE  
OGDEN, UT 84201-0013**

Enclosed is your 2006 Iowa S Corporation Income Tax Return. The original should be signed at the bottom of the form. No tax is payable with the filing of this return. Mail the Iowa return on or before October 31, 2007 to:

**CORPORATION TAX RETURN PROCESSING  
IOWA DEPARTMENT OF REVENUE  
P.O. BOX 10468  
DES MOINES, IA 50306-0468**

You must distribute a copy of the 2006 Schedule K-1 to each shareholder. Be sure to give each shareholder a copy of the Shareholder's Instructions for Schedule K-1 (Form 1120S).

Please call if you have any questions.

Sincerely,

*Joan M. Keuning*

Joan Keuning

## U.S. Income Tax Return for an S Corporation

OMB No. 1545-0130

- Do not file this form unless the corporation has filed Form 2553 to elect to be an S corporation.
- See separate instructions.

2006

For calendar year 2006 or tax year beginning , 2006, ending

A Effective date of S election  9/01/2005	B Business activity code number (see instructions)  233110	C Use the IRS label. Otherwise, print or type.  R & R Apartments Inc 2141 Highway 6 Atalissa, IA 52720	C Employer identification number
			D Date incorporated  9/01/2005
			E Total assets (see instructions)  \$ 543,807.

F Check if: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return

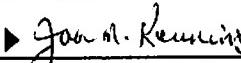
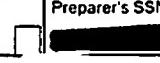
G Enter the number of shareholders in the corporation at the end of the tax year. ► 1

H Check if Schedule M-3 is required (attach Schedule M-3). ► **Caution. Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.**

I N C O M E  D E D U C T I O N S  S - I N S T R S	1a Gross receipts or sales... b Less returns and allowances... c Bal ► 1c
	2 Cost of goods sold (Schedule A, line 8)... 3 Gross profit. Subtract line 2 from line 1c... 4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)... 5 Other income (loss) (attach statement)... 6 Total income (loss). Add lines 3 through 5... ► 6
	7 Compensation of officers... 8 Salaries and wages (less employment credits)... 9 Repairs and maintenance... 10 Bad debts... 11 Rents... 12 Taxes and licenses... 13 Interest... 14 Depreciation not claimed on Schedule A or elsewhere on return (attach Form 4562)... 15 Depletion (Do not deduct oil and gas depletion.)... 16 Advertising... 17 Pension, profit-sharing, etc, plans... 18 Employee benefit programs... 19 Other deductions (attach statement)... 20 Total deductions. Add lines 7 through 19... ► 20
	21 Ordinary business income (loss). Subtract line 20 from line 6... ► 21
	22a Excess net passive income or LIFO recapture tax (see instructions)... b Tax from Schedule D (Form 1120S)... c Add lines 22a and 22b (see instructions for additional taxes)... ► 22c
	23a 2006 estimated tax payments and 2005 overpayment credited to 2006... b Tax deposited with Form 7004... c Credit for federal tax paid on fuels (attach Form 4136)... d Credit for federal telephone excise tax paid (attach Form 8913)... e Add lines 23a through 23d... ► 23e
	24 Estimated tax penalty (see instructions). Check if Form 2220 is attached. ► <input type="checkbox"/> 25 Amount owed. If line 23e is smaller than the total of lines 22c and 24, enter amount owed... 26 Overpayment. If line 23e is larger than the total of lines 22c and 24, enter amount overpaid... 27 Enter amount from line 26 Credited to 2007 estimated tax Refunded 27

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

►   
 Signature of officer Date Title  
 May the IRS discuss this return with the preparer shown below (see instructions)?  Yes  No

Paid Preparer's se Only	Preparer's signature ►  Firm's name (or yours if self-employed), address, and ZIP code ► Keuning & Associates PC 112 E 3rd St West Liberty, IA 52776	Date 10/15/07	Check if self-employed... <input type="checkbox"/>	Preparer's SSN or PTIN 
				EIN _____
				Phone no. (319) 627-4727

BAA For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

SPSA0105L 01/05/07

Form 1120S (2006)

**Schedule A** Cost of Goods Sold (see instructions)

1 Inventory at beginning of year.....	1
2 Purchases.....	2
3 Cost of labor.....	3
4 Additional section 263A costs (attach statement).....	4
5 Other costs (attach statement).....	5
6 Total. Add lines 1 through 5.....	6
7 Inventory at end of year.....	7
8 Cost of goods sold. Subtract line 7 from line 6. Enter here and on page 1, line 2.....	8

9a Check all methods used for valuing closing inventory:

- (i)  Cost as described in Regulations section 1.471-3  
 (ii)  Lower of cost or market as described in Regulations section 1.471-4  
 (iii)  Other (Specify method used and attach explanation.)

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c). c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970). d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO.  9de If property is produced or acquired for resale, do the rules of section 263A apply to the corporation?  Yes  Nof Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If 'Yes,' attach explanation.  Yes  No**Schedule B** Other Information (see instructions)

Yes No

1 Check accounting method: a <input checked="" type="checkbox"/> Cash b <input type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ►	<input checked="" type="checkbox"/>
2 See the instructions and enter the: a Business activity ► <u>Leasing</u> b Product or service .. ► <u>Residential RE</u>	<input checked="" type="checkbox"/>
3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If 'Yes,' attach a statement showing: (a) name and employer identification number (EIN), (b) percentage owned, and (c) if 100% owned, was a QSub election made?.	<input type="checkbox"/> X
4 Was the corporation a member of a controlled group subject to the provisions of section 1561?.	<input type="checkbox"/> X
5 Has this corporation filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?.	<input type="checkbox"/> X
6 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. <input type="checkbox"/>	<input type="checkbox"/>
7 If the corporation: (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to its basis (or the basis of any other property) in the hands of a C corporation and (b) has net unrealized built-in gain (defined in section 1374(d)(1)) in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years. ► \$	<input type="checkbox"/>
8 Enter the accumulated earnings and profits of the corporation at the end of the tax year. \$	<input type="checkbox"/>
9 Are the corporation's total receipts (see instructions) for the tax year and its total assets at the end of the tax year less than \$250,000? If 'Yes,' the corporation is not required to complete Schedules L and M-1.	<input type="checkbox"/> X

Note: If the corporation, at any time during the tax year, had assets or operated a business in a foreign country or U.S. possession, it may be required to attach Schedule N (Form 1120), Foreign Operations of U.S. Corporations, to this return. See Schedule N for details.

**Schedule K** Shareholders' Pro Rata Share Items

Total amount

1 Ordinary business income (loss) (page 1, line 21).....	1	
2 Net rental real estate income (loss) (attach Form 8825).....	2	-9,542.
3a Other gross rental income (loss).....	3a	
b Expenses from other rental activities (attach statement).....	3b	
c Other net rental income (loss). Subtract line 3b from line 3a.	3c	
4 Interest income.....	4	218.
5 Dividends: a Ordinary dividends.....	5a	
b Qualified dividends.....	5b	
6 Royalties.....	6	
7 Net short-term capital gain (loss) (attach Schedule D (Form 1120S)).....	7	
8a Net long-term capital gain (loss) (attach Schedule D (Form 1120S)).....	8a	*
b Collectibles (28%) gain (loss).....	8b	
c Unrecaptured section 1250 gain (attach statement).....	8c	
9 Net section 1231 gain (loss) (attach Form 4797).....	9	
10 Other income (loss) (see instructions).....	10	

	Shareholders' Pro Rata Share Items (continued)	Total amount
Deductions	11 Section 179 deduction (attach Form 4562). . . . .	11
	12a Contributions. . . . .	12a
	b Investment interest expense . . . . .	12b
	c Section 59(e)(2) expenditures (1) Type ► _____ (2) Amount. ► _____	12c (2)
	d Other deductions (see instructions). . . . Type ► _____	12d
Credits	13a Low-income housing credit (section 42(j)(5)). . . . .	13a
	b Low-income housing credit (other). . . . .	13b
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468). . . . .	13c
	d Other rental real estate credits (see instrs) Type ► _____	13d
	e Other rental credits (see instrs) Type ► _____	13e
	f Credit for alcohol used as fuel (attach Form 6478). . . . .	13f
	g Other credits (see instructions). . . . Type ► _____	13g
Foreign Trans-actions	14a Name of country or U.S. possession. . . . .	14a
	b Gross income from all sources . . . . .	14b
	c Gross income sourced at shareholder level. . . . .	14c
	<i>Foreign gross income sourced at corporate level</i>	
	d Passive. . . . .	14d
	e Listed categories (attach statement). . . . .	14e
	f General limitation . . . . .	14f
	<i>Deductions allocated and apportioned at shareholder level</i>	
	g Interest expense . . . . .	14g
	h Other. . . . .	14h
	<i>Deductions allocated and apportioned at corporate level to foreign source income</i>	
	i Passive. . . . .	14i
	j Listed categories (attach statement). . . . .	14j
	k General limitation . . . . .	14k
	<i>Other information</i>	
	l Total foreign taxes (check one): ► <input type="checkbox"/> Paid <input type="checkbox"/> Accrued. . . . .	14l
	m Reduction in taxes available for credit (attach statement). . . . .	14m
	n Other foreign tax information (attach statement). . . . .	
Alternative Minimum Tax (AMT) Items	15a Post-1986 depreciation adjustment. . . . .	15a                   2,631.
	b Adjusted gain or loss . . . . .	15b
	c Depletion (other than oil and gas). . . . .	15c
	d Oil, gas, and geothermal properties — gross income. . . . .	15d
	e Oil, gas, and geothermal properties — deductions . . . . .	15e
	f Other AMT items (attach statement). . . . .	15f
Items Affecting Shareholder Basis	16a Tax-exempt interest income. . . . .	16a
	b Other tax-exempt income. . . . .	16b
	c Nondeductible expenses . . . . .	16c
	d Property distributions . . . . .	16d
	e Repayment of loans from shareholders . . . . .	16e
Other Information	17a Investment income . . . . .	17a                   218.
	b Investment expenses . . . . .	17b
	c Dividend distributions paid from accumulated earnings and profits. . . . .	17c
	d Other items and amounts (attach statement). . . . .	
Reconciliation	18 Income/loss reconciliation. Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and lines 14l . . . . .	18                   -9,324.

BAA

Form 1120S (2006)

Schedule L Balance Sheets per Books	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
1 Cash .....				14,265.
2a Trade notes and accounts receivable .....				
b Less allowance for bad debts.....				
3 Inventories.....				
4 U.S. government obligations .....				
5 Tax-exempt securities (see instructions) .....				
6 Other current assets (attach stmt).....				
7 Loans to shareholders .....				
8 Mortgage and real estate loans.....				
9 Other investments (attach statement).....				
10a Buildings and other depreciable assets.....			552,139.	
b Less accumulated depreciation.....			70,597.	481,542.
11a Depletable assets .....				
b Less accumulated depletion.....				
12 Land (net of any amortization).....				48,000.
13a Intangible assets (amortizable only).....				
b Less accumulated amortization.....				
14 Other assets (attach stmt).....				
15 Total assets.....		0.		543,807.
<b>Liabilities and Shareholders' Equity</b>				
16 Accounts payable .....				
17 Mortgages, notes, bonds payable in less than 1 year.....				
18 Other current liabilities (attach stmt).....				
19 Loans from shareholders.....				146,492.
20 Mortgages, notes, bonds payable in 1 year or more.....				417,587.
21 Other liabilities (attach statement).....				
22 Capital stock.....				500.
23 Additional paid-in capital.....				
24 Retained earnings.....		-11,448.		-20,772.
25 Adjustments to shareholders' equity (att stmt).....				
26 Less cost of treasury stock.....				
27 Total liabilities and shareholders' equity.....		-11,448.		543,807.

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more – see instructions

1 Net income (loss) per books .....	-9,324.	5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize):		a Tax-exempt interest \$ _____	
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12, and 14l (itemize):		6 Deductions included on Schedule K, lines 1 through 12, and 14l, not charged against book income this year (itemize):	
a Depreciation .....	\$ _____	a Depreciation ... \$ _____	
b Travel and entertainment .....	\$ _____	7 Add lines 5 and 6 .....	0.
4 Add lines 1 through 3.....	-9,324.	8 Income (loss) (Schedule K, ln 18). Ln 4 less ln 7....	-9,324.

**Schedule M-2 Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (see instructions)**

	(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1 Balance at beginning of tax year.....	-11,448.		
2 Ordinary income from page 1, line 21.....			
3 Other additions.....	218.		
4 Loss from page 1, line 21.....			
5 Other reductions.....	( 9,542.)		
6 Combine lines 1 through 5.....	-20,772.		
7 Distributions other than dividend distributions.....			
8 Balance at end of tax year. Subtract line 7 from line 6.....	-20,772.		

Rental Real Estate Income and Expenses of a  
Partnership or an S Corporation

OMB No. 1545-1186

► See instructions.

► Attach to Form 1065, Form 1065-B, or Form 1120S.

Name \_\_\_\_\_ Employer identification number \_\_\_\_\_

R &amp; R Apartments Inc

1 Show the kind and location of each property. See page 2 to list additional properties.

A Rental UnitsMuscatine & Louisa Counties, Iowa

B \_\_\_\_\_

C \_\_\_\_\_

D \_\_\_\_\_

Rental Real Estate Income	Properties			
	A	B	C	D
2 Gross rents .....	2	97,004.		
<b>Rental Real Estate Expenses</b>				
3 Advertising .....	3	247.		
4 Auto and travel .....	4	3,778.		
5 Cleaning and maintenance .....	5	5,772.		
6 Commissions .....	6			
7 Insurance .....	7	3,076.		
8 Legal and other professional fees .....	8	256.		
9 Interest .....	9	22,030.		
10 Repairs .....	10	20,987.		
11 Taxes .....	11	11,150.		
12 Utilities .....	12	5,930.		
13 Wages and salaries .....	13			
14 Depreciation (see instructions) .....	14	31,515.		
15 Other (list) ►				
<u>Bank Charges</u>	15	116.		
<u>Miscellaneous</u>		584.		
<u>Supplies</u>		1,105.		
16 Total expenses for each property. Add lines 3 through 15.....	16	106,546.		
17 Total gross rents. Add gross rents from line 2, columns A through H.....			17	97,004.
18 Total expenses. Add total expenses from line 16, columns A through H.....			18	-106,546.
19 Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities .....			19	
20a Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1) .....			20a	
b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:				
(1) Name	(2) Employer identification number			
-----	-----			
-----	-----			
21 Net rental real estate income (loss). Combine lines 17 through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2, or • Form 1065-B: Part I, line 4			21	-9,542.

BAA For Paperwork Reduction Act Notice, see the separate instructions.

Form 8825 (12-2006)

**Schedule K-1**  
**(Form 1120S)**

**2006**

For calendar year 2006, or tax

Department of the Treasury  
Internal Revenue Service

year beginning \_\_\_\_\_, 2006

ending \_\_\_\_\_.

**Shareholder's Share of Income, Deductions,  
Credits, etc. ▶ See page 2 of form and separate instructions.**

 Final K-1 Amended K-1**Part III****Shareholder's Share of Current Year Income,  
Deductions, Credits, and Other Items****Part I** **Information About the Corporation****A** Corporation's employer identification number**B** Corporation's name, address, city, state, and ZIP codeR & R Apartments Inc  
2141 Highway 6  
Atalissa, IA 52720**C** IRS Center where corporation filed return

Ogden, UT

**D**  Tax shelter registration number, if any \_\_\_\_\_**E**  Check if Form 8271 is attached**Part II** **Information About the Shareholder****F** Shareholder's identifying number**G** Shareholder's name, address, city, state, and ZIP codeMichael Smock  
2141 Highway 6  
Atalissa, IA 52720**H** Shareholder's percentage of stock ownership for tax year.....

100 %

 Final K-1 Amended K-1**Part III****Shareholder's Share of Current Year Income,  
Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss) * -9,542.		
3	Other net rental income (loss)		
4	Interest income 218.		
5a	Ordinary dividends		
5b	Qualified dividends	14	Foreign transactions
6	Royalties		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)		
10	Other income (loss)	15	Alternative minimum tax (AMT) items A 2,631.
11	Section 179 deduction	16	Items affecting shareholder basis
12	Other deductions		
17	Other information A 218.		

\*See attached statement for additional information.

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040. For detailed reporting and filing information, see the separate Shareholder's Instructions for Schedule K-1 and the instructions for your income tax return.

- 1** Ordinary business income (loss). You must first determine whether the income (loss) is passive or nonpassive. Then enter on your return as follows:

- Passive loss
- Passive income
- Nonpassive loss
- Nonpassive income

**2 Net rental real estate income (loss)**

**3 Other net rental income (loss)**

- Net income
  - Net loss
- 4 Interest income**
- 5a Ordinary dividends**
- 5b Qualified dividends**
- 6 Royalties**
- 7 Net short-term capital gain (loss)**
- 8a Net long-term capital gain (loss)**
- 8b Collectibles (28%) gain (loss)**
- 8c Unrecaptured section 1250 gain**
- 9 Net section 1231 gain (loss)**

**10 Other income (loss)**

- Code**
- A** Other portfolio income (loss)
  - B** Involuntary conversions
  - C** Section 1256 contracts and straddles
  - D** Mining exploration costs recapture
  - E** Other income (loss)

**11 Section 179 deduction**

**12 Other deductions**

- A** Cash contributions (50%)
- B** Cash contributions (30%)
- C** Noncash contributions (50%)
- D** Noncash contributions (30%)
- E** Capital gain property to a 50% organization (30%)
- F** Capital gain property (20%)
- G** Investment interest expense
- H** Deductions — royalty income
- I** Section 59(e)(2) expenditures
- J** Deductions — portfolio (2% floor)
- K** Deductions — portfolio (other)
- L** Preproductive period expenses
- M** Commercial revitalization deduction from rental real estate activities
- N** Reforestation expense deduction
- O** Domestic production activities information
- P** Qualified production activities income
- Q** Employer's W-2 wages
- R** Other deductions

**13 Credits**

- A** Low-income housing credit (section 42(j)(5))
- B** Low-income housing credit (other)
- C** Qualified rehabilitation expenditures (rental real estate)
- D** Other rental real estate credits
- E** Other rental credits
- F** Undistributed capital gains credit
- G** Credit for alcohol used as fuel
- H** Work opportunity credit
- I** Welfare-to-work credit
- J** Disabled access credit
- K** Empowerment zone and renewal community employment credit

**Report on**

- See the Shareholder's Instructions
- Schedule E, line 28, column (g)
- Schedule E, line 28, column (h)
- Schedule E, line 28, column (i)

See the Shareholder's Instructions

- Schedule E, line 28, column (g)

See the Shareholder's Instructions

- Form 1040, line 8a

- Form 1040, line 9a

- Form 1040, line 9b

- Schedule E, line 4

- Schedule D, line 5, column (f)

- Schedule D, line 12, column (f)

- 28% Rate Gain Worksheet, line 4 (Schedule D instructions)

See the Shareholder's Instructions

See the Shareholder's Instructions

- See the Shareholder's Instructions

- See the Shareholder's Instructions

- Form 6781, line 1

- See Pub 535

See the Shareholder's Instructions

See the Shareholder's Instructions

- Form 4952, line 1

- Schedule E, line 18

See the Shareholder's Instructions

- Schedule A, line 22

- Schedule A, line 27

See the Shareholder's Instructions

- See Form 8582 Instructions

See the Shareholder's Instructions

- See Form 8903 Instructions

- Form 8903, line 7

- Form 8903, line 13

See the Shareholder's Instructions

- See Form 8844, line 3

**Code**

- L** Credit for increasing research activities

- M** New markets credit

- N** Credit for employer social security and Medicare taxes

- O** Backup withholding

- P** Other credits

**14 Foreign transactions**

- A** Name of country or U.S. possession

- B** Gross income from all sources

- C** Gross income sourced at shareholder level

**Foreign gross income sourced at corporate level**

- D** Passive

- E** Listed categories

- F** General limitation

**Deductions allocated and apportioned at shareholder level**

- G** Interest expense

- H** Other

**Deductions allocated and apportioned at corporate level to foreign source income**

- I** Passive

- J** Listed categories

- K** General limitation

**Other information**

- L** Total foreign taxes paid

- M** Total foreign taxes accrued

- N** Reduction in taxes available for credit

- O** Foreign trading gross receipts

- P** Extraterritorial income exclusion

- Q** Other foreign transactions

**15 Alternative minimum tax (AMT) items**

- A** Post-1986 depreciation adjustment

- B** Adjusted gain or loss

- C** Depletion (other than oil & gas)

- D** Oil, gas, & geothermal — gross income

- E** Oil, gas, & geothermal — deductions

- F** Other AMT items

**16 Items affecting shareholder basis**

- A** Tax-exempt interest income

- B** Other tax-exempt income

- C** Nondeductible expenses

- D** Property distributions

- E** Repayment of loans from shareholders

**17 Other information**

- A** Investment income

- B** Investment expenses

- C** Qualified rehabilitation expenditures (other than rental real estate)

- D** Basis of energy property

- E** Recapture of low-income housing credit (section 42(d)(5))

- F** Recapture of low-income housing credit (other)

- G** Recapture of investment credit

- H** Recapture of other credits

- I** Look-back interest — completed long-term contracts

- See Form 8697

- J** Look-back interest — income forecast method

- See Form 8866

- K** Dispositions of property with section 179 deductions

- L** Recapture of section 179 deduction

- M** Section 453(l)(3) information

- N** Section 453(c) information

- O** Section 1260(b) information

- P** Interest allocable to production expenditures

- Q** CCF nonqualified withdrawals

- R** Information needed to figure depletion — oil and gas

- S** Amortization of reforestation costs

- T** Other information

**Report on**

- See the Shareholder's Instructions

- Form 1040, line 64

- See the Shareholder's Instructions

- Form 1116, Part I

- Form 1116, Part II

**Box 2  
Net Rental Real Estate Income (loss)**

<u>Property Description</u>	<u>Gross Income</u>	<u>Net Expenses</u>	<u>Net Income</u>	<u>Passive Nonpass</u>	<u>Sec. 1231 Total</u>
Rental Units	97,004.	106,546.	\$ -9,542.	NonPass	
		Total	\$ -9,542.		

Michael Smock 484-84-2036

SPSL1201L 07/31/03

Form 4562

Department of the Treasury  
Internal Revenue ServiceDepreciation and Amortization  
(Including Information on Listed Property)

OMB No. 1545-0172

2006

Attachment  
Sequence No. 67

Name(s) shown on return

Identifying number

R &amp; R Apartments Inc

Business or activity to which this form relates

## Rental Real Estate Activity (Form 8825) - Rental Units

## Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount. See the instructions for a higher limit for certain businesses .....	1	\$108,000.
2 Total cost of section 179 property placed in service (see instructions).....	2	
3 Threshold cost of section 179 property before reduction in limitation.....	3	\$430,000.
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-.....	4	
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions .....	5	

(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7 Listed property. Enter the amount from line 29 .....	7	
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7.....	8	
9 Tentative deduction. Enter the smaller of line 5 or line 8.....	9	
10 Carryover of disallowed deduction from line 13 of your 2005 Form 4562.....	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instrs) ..	11	
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11.....	12	
13 Carryover of disallowed deduction to 2007. Add lines 9 and 10, less line 12 .....	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

## Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)

14 Special allowance for qualified New York Liberty or Gulf Opportunity Zone property (other than listed property) placed in service during the tax year (see instructions) .....	14	
15 Property subject to section 168(f)(1) election.....	15	
16 Other depreciation (including ACRS).....	16	

## Part III MACRS Depreciation (Do not include listed property.) (See instructions)

## Section A

17 MACRS deductions for assets placed in service in tax years beginning before 2006.....	17	25,685.
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here .....		<input type="checkbox"/>

## Section B - Assets Placed in Service During 2006 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only — see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property.....						
b 5-year property.....		11,075.	5	HY	200DB	2,215.
c 7-year property.....						
d 10-year property.....						
e 15-year property.....						
f 20-year property.....						
g 25-year property.....			25 yrs		S/L	
h Residential rental property.....	3/03/06	42,558.	27.5 yrs	MM	S/L	1,225.
	Various	137,310.	27.5 yrs	MM	S/L	2,390.
i Nonresidential real property.....			39 yrs	MM	S/L	
				MM	S/L	

## Section C - Assets Placed in Service During 2006 Tax Year Using the Alternative Depreciation System

20a Class life .....				S/L	
b 12-year .....			12 yrs	S/L	
c 40-year .....			40 yrs	MM	S/L

## Part IV Summary (see instructions)

21 Listed property. Enter amount from line 28.....	21	
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations — see instructions.....	22	31,515.
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs.....	23	

BAA For Paperwork Reduction Act Notice, see separate Instructions.

FD-10812L 06/22/06

Form 4562 (2006)

## R &amp; R Apartments Inc

**Statement 1**  
**Form 1120S, Schedule M-2, Column A, Line 3**  
**Other Additions**

Interest Income.....	\$	218.
Total \$		<u>218.</u>

**Statement 2**  
**Form 1120S, Schedule M-2, Column A, Line 5**  
**Other Reductions**

Net Rental Real Estate Loss.....	\$	9,542.
Total \$		<u>9,542.</u>



Iowa Department of Revenue  
www.state.ia.us/tax

**2006 IA 1120S**

OFFICE USE ONLY

**Iowa Income Tax Return for an S Corporation**

From **1/01/06** to **12/31/06**

Check the box if this is **(1) Name/Address Change** **(2) A Short Period**

Corporation Name and Address

R & R Apartments Inc  
2141 Highway 6  
Atalissa, IA 52720

Name of contact person:

Phone Number: Extension:

Type of Return: **1 S Corporation** **2 IC Domestic International Sales Corporation** **3 Foreign Sales Corporation**

Is this an inactive corporation? **Yes**  **No**

Was Federal income or tax changed for any prior period(s)? **Yes**  **No**  Periods \_\_\_\_\_

Is the corporation's business carried on entirely within Iowa? **Yes**  **No**

Date of S corporation election: **9/01/2005**

Box A	Box B
Federal TIN:	<b>Business Code: 233110</b>
Box C	
County Number: <b>70</b>	
Is this a first or final return? If yes, check the appropriate box.	
First Return <b>▲</b>	<input type="checkbox"/> New Business <input type="checkbox"/> Successor <input type="checkbox"/> Entering Iowa
Final Return <b>▲</b>	<input type="checkbox"/> Reorganized <input type="checkbox"/> Merged <input type="checkbox"/> Dissolved
	<input type="checkbox"/> Withdrawn <input type="checkbox"/> Bankruptcy <input type="checkbox"/> Others

		<b>USE WHOLE DOLLARS</b>
1	Net Income per Federal Schedule K (see instructions)	<b>1 -9,324.</b>
2	Interest and dividends exempt from Federal income tax (see instructions)	2 _____
3	Other additions (attach schedule)	3 _____
4	Total additions (add lines 2 and 3)	4 _____
5	50% of Federal income tax	5 _____
6	Interest and dividends from Federal securities (see instructions)	6 _____
7	Other reductions (attach schedule)	7 _____
8	Total reductions (add lines 5, 6 and 7)	8 _____
9	Net modifications (line 4 less line 8)	9 _____
10	Modified Federal net income (line 1 plus line 9)	10 <b>-9,324.</b> ▲

<b>SCHEDULE K</b>	<b>(1)</b> Name and Address of Shareholder	<b>(2)</b> Resident/ Nonresident	<b>(3)</b> Social Security Number or Federal ID Number	<b>(4)</b> % Interest	<b>(5)</b> Share of Modifications	<b>(6)</b> All-Source Income	<b>(7)</b> Apportioned Income
A Michael Smock 2141 Highway 6 Atalissa, IA 52720	▲ R			100.0 %		<b>-9,324.</b>	<b>-9,324.</b> ▲
B				▲ %			
C				▲ %			
D				▲ %			
<input type="checkbox"/> Check if addnl shareholders, complete sch 41-034 from our Web site, and attach.. TOTALS				100 %		<b>-9,324.</b>	<b>-9,324.</b>

11 Tax on built-in gains or passive investment income (see instructions) **11** \_\_\_\_\_ ▲

Make check payable to Treasurer – State of Iowa

Information from Prior Period Iowa Return: Corporation Name **Same**

Net Income/(Loss) \$ **-11,448.** ▲ Federal TIN: **Same** ▲

A complete copy of your Federal Return, as filed with the Internal Revenue Service, MUST be filed with this return.

Under penalties of perjury, I declare that I have examined this return and any attached schedules/statements, and, to the best of my knowledge, believe it to be true, correct and complete. If prepared by a person other than the taxpayer, the declaration is based on all information of which there is any knowledge.

Officer's Signature

Date

Title

Preparer's Signature

Date **10/15/07**

Preparer's ID No. **[REDACTED]**

Preparer's Address

**Keuning & Associates PC  
112 E 3rd St, West Liberty, IA 52776**

Mail to: Corporate Tax Return Processing, Iowa Department of Revenue, P.O. Box 10468, Des Moines IA 50306-0468

IASA0101L 09/21/06

42-004a (8/04/06) INT

Corporation Name  
**R & R Apartments Inc**  
Federal Identification Number

Shareholder Name  
**Michael Smock**  
Social Security Number

Shareholder's percentage of stock ownership for tax year..... **100** %

		(a) Shareholder's pro rata share of items	(b) Amount
	<b>1</b>	Net income before state adjustments (from Federal K-1).....	<b>1</b> <b>-9,324.</b>
Additions	<b>2</b>	Interest and dividends exempt from federal income tax.....	<b>2</b>
	<b>3</b>	Other additions.....	<b>3</b>
	<b>4</b>	<b>Total additions to net income</b> .....	<b>4</b>
	<b>5</b>	50% of federal income tax.....	<b>5</b>
Reductions	<b>6</b>	Interest and dividends from federal securities.....	<b>6</b>
	<b>7</b>	Other reductions.....	<b>7</b>
	<b>8</b>	<b>Total reductions to net income</b> .....	<b>8</b>
Other	<b>9</b>	Net modifications.....	<b>9</b>
	<b>10</b>	<b>Modified federal net income</b> .....	<b>10</b> <b>-9,324.</b>
Credits	<b>11</b>	Research activities credit.....	<b>11</b>
	<b>12</b>	New jobs credit.....	<b>12</b>
	<b>13</b>	Seed capital credit.....	<b>13</b>
	<b>14</b>	Motor vehicle fuel tax credit.....	<b>14</b>
	<b>15</b>	Investment Tax Credit.....	<b>15</b>

**16** Supplemental information

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents \$ 1991.67	OMB No. 1545-0115	<b>Miscellaneous Income</b> <b>Form 1099-MISC</b>
<b>CITY OF MUSCATINE</b> <b>215 SYCAMORE STREET</b> <b>MUSCATINE, IA 52761</b> <b>563-264-1550</b>		2 Royalties \$	2006	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Other income \$	4 Federal income tax withheld \$	
RECIPIENT'S name, street address (including apt. no.), city, state, and ZIP code		5 Fishing boat proceeds \$	6 Medical and health care payments \$	
<b>R AND R APARTMENTS</b> <b>2141 HIGHWAY #6</b> <b>ATALISSA, IA 52720</b>		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	
Account number (see instructions)  <b>701000</b>		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ► <input type="checkbox"/>	10 Crop insurance proceeds \$	
15a Section 409A deferrals \$	15b Section 409A Income \$	11	12	
16 State tax withheld \$	17 State/Payer's state no. IA	18 State income \$		

Form 1099-MISC

(keep for your records)

Department of the Treasury - Internal Revenue Service

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents \$ 975.00	CMB No. 1545-D115 <b>2006</b>	Miscellaneous Income Form 1099-MISC
<b>CITY OF MUSCATINE</b> <b>215 Sycamore Street</b> <b>MUSCATINE, IA 52761</b> <b>563-264-1550</b>		2 Royalties \$	4 Federal income tax withheld \$	Copy B For Recipient
PAYER'S federal identification number	RECIPIENT'S identification number	3 Other income \$	5 Fishing boat proceeds \$	6 Medical and health care payments \$
RECIPIENT'S name, street address (including apt. no.), city, state, and ZIP code <b>MICHAEL SMOCK</b> <b>2141 HWY #6</b> <b>ATALISSA, IA 52720</b>		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (see instructions) <b>700339</b>	15a Section 409A deferrals \$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale □ 11	10 Crop insurance proceeds \$	12
15b Section 409A income \$	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	17 State/Payer's state no. \$	18 State income \$
(keep for your records) Department of the Treasury - Internal Revenue Service				

0004428R

PAYER'S name, street address, city, state, ZIP code, and telephone no.

R.I.A. FEDERAL CREDIT UNION  
 P.O. BOX 4750  
 ROCK ISLAND IL 61204

(563)355-3800

PAYER'S Federal identification number	RECIPIENT'S Identification number
---------------------------------------	-----------------------------------

RECIPIENT'S name, street address, city, state and ZIP code

R AND R APARTMENTS  
 2141 HWY 6  
 ATALISSA IA 52720

XXXXXXXXXXXXXXXXXXXXXX

OMB No. 1545-0112

**2006**  
 Form 1099-INT

**Interest Income****Copy B**

For Recipient  
 This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

ACCT#

1 Interest income not included in box 3

\$ \$179.28

2 Early withdrawal penalty

\$ \$0.00

3 Interest on U.S. Savings Bonds and Treas. obligations

\$ \$0.00

4 Federal income tax withheld

\$ \$0.00

5 Investment expenses

\$ \$0.00

6 Foreign tax paid

\$ \$0.00

7 Foreign country or U.S. possession

Form 1099-INT

(Keep for your records.)

Department of Treasury - Internal Revenue Service

**Instructions for Recipient**

Account number. May show an account or other unique number the payer assigned to distinguish your account.

Box 1. Shows taxable interest paid to you during the calendar year by the payer. This does not include interest shown in box 3. May also show the total amount of the credits from clean renewable energy bonds if bonds that must be included in your interest income. These amounts were treated as paid to you during 2006 on the credit allowance dates (March 15, June 15, September 15, and December 15). For more information see form 8912, Clean Renewable Energy Bond and Gulf Bond Credit.

Box 2. Shows interest or principal forfeited because of early withdrawal of time savings. You may deduct this amount to figure your adjusted gross income on your income tax return. See the instructions for Form 1040 to see where to take the deduction.

Box 3. Shows interest on U.S. Savings Bonds, Treasury bills, Treasury bonds, and Treasury notes. This may or may not be all taxable. See Pub. 560, Investment Income and Expenses. This interest is exempt from state and local income taxes. This interest is not included in box 1.

Box 4. Shows backup withholding. Generally, a payer must backup withhold at a 28% rate if you did not furnish your taxpayer identification number (TIN) or you did not furnish the correct TIN to the payer. See Form W-9, Request for Taxpayer Identification Number and Certification, for information on backup withholding. Include this amount on your income tax return as tax withheld.

Box 5. Any amount shown is your share of investment expenses of a single-class REMIC. If you file Form 1040, you may deduct these expenses on the "Other Expenses" line of Schedule A (Form 1040) subject to the 2% limit. This amount is included in box 1.

Box 6. Shows foreign tax paid. You may be able to claim this tax as a deduction or a credit on your Form 1040. See your Form 1040 instructions.

Box 8. Shows tax-exempt interest, including exempt interest dividends from a mutual fund or other regulated investment company, paid to you during the calendar year by the payer. Report this amount on line 8b of Form 1040 or Form 1040A. This amount may be subject to backup withholding. See box 4.

Box 9. Shows tax-exempt interest subject to the alternative minimum tax. This amount is included in box 8. See the instructions for Form 6251, Alternative Minimum Tax - Individuals.

Nominees. If this form includes amounts belonging to another person(s), you are considered a nominee recipient. Complete a Form 1099-INT for each of the other owners showing the income allocable to each. File Copy A of the form with the IRS. Furnish Copy B to each owner. List yourself as the "payer" and the other owner(s) as the "recipient." File Form(s) 1099-INT with Form 1096, Annual Summary and Transmittal of U.S. Information Returns, with the Internal Revenue Service Center for your area. On Form 1096 list yourself as the "filer". A husband or wife is not required to file a nominee return to show amounts owned by the other.

FIRST NATIONAL BANK MUSCATINE  
300 E. 2ND STREET  
MUSCATINE IA 52761

661L00001401-1

## **Tax Statement for Forms 1098, 1099, 5498 for Tax Year 2006**

1033 - Copy B - For Payer	- 003 # 1845-0301	1033 - OIV	- Copy B - For Recipient	- 003 # 1845-0110
1033 - E - Copy B - For Borrower	- 003 # 1845-1876	1033 - INT	- Copy B - For Recipient	- 003 # 1845-0112
1039 - A - Copy B - For Borrower	- 003 # 1845-0277	1039 - MISC	- Copy B - For Recipient	- 003 # 1845-0113
1039 - B - Copy B - For Recipient	- 003 # 1845-0715	1039 - OJD	- Copy B - For Recipient	- 003 # 1845-0117
1039 - C - Copy B - For Debtor	- 003 # 1845-1424	1039 - S	- Copy B - For Transactor	- 003 # 1845-0870
1039 - G - Copy B - For Recipient	- 003 # 1845-1773	1039 - SA	- Copy B - For Recipient	- 003 # 1845-0177
		5493	- Copy B - For Participant	- 003 # 1845-0178

**DEPARTMENT OF THE TREASURY - INTERNAL REVENUE SERVICE.**  
**(keep for your records)**

**"For Form 1099-B, DIV, INT, MISC, C/D, and Q: This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported."**

MICHAEL L SMOCK  
2141 HWY 6  
ATALISSA IA 52720-9764

**Recipient's Federal ID# 42-0429070  
Questions? (563) 263-4221 MARY LORENTZEN**

**TAXPAYER ID#**

PAGE 1 OF 1

## **2006 FORM 1098: MORTGAGE INTEREST STATEMENT**

**\*Form 1099 OID: This may not be the correct figure to report on your income tax return. See instructions on the back.**

**Form 1088 - Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.**

**Form 1098 - The information in boxes 1, 2, and 3 is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points or because you did not report this refund of interest on your return.**

Form 1098-E - This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for student loan interest.